

Beggar My Neighbor?
Exchange-Rate Depreciation as a Profit-Shifting Trade Strategy

Patrick Conway
Department of Economics
University of North Carolina
Chapel Hill, NC 27599-3305
E-mail: patrick_conway@unc.edu

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Abstract:

In this paper I introduce a variant of the Dornbusch-Fischer-Samuelson (1977) trade model that incorporates not only differing productivity but also differing and endogenously determined profits and wage compensation to labor across industries. Depreciation of the nominal exchange rate is not welfare-neutral in this case, but is an agent for capturing for the home country the profits due to the existence of comparative advantage in international trade. Those profits, when reinvested, lead to improvement in home welfare relative to foreign welfare. The depreciation also can lead to a widening of the gap between the compensation of skilled and unskilled labor.

JEL classifications: F1, J6

URL for complete paper: <http://www.unc.edu/home/pconway/dload/rvdfs.PDF>